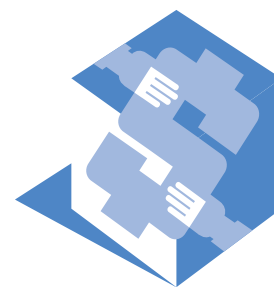


CAPACITY  
DEVELOPMENT

## CAPACITY DEVELOPMENT

Capacity development must be an essential part of the U.S. strategy to strengthen Iraq's public sector. Capacity development activities facilitate the transfer of knowledge, skills, and abilities across a range of GOI functions.<sup>153</sup>

In October 2005, SIGIR reported on a growing recognition within the U.S. government that the GOI was not prepared to assume the near- or long-term management and funding of the infrastructure developed through U.S.-managed IRRF projects.

As a result, IRMO and USAID began planning to provide more capacity development support to Iraqi ministries and executive institutions.

U.S. support targets three key areas:

- improving budget preparation and execution
- improving the ability to support and sustain critical infrastructure projects
- improving the management capacity of the Iraqi ministries and civil service

The lack of an integrated capacity development strategy has inhibited U.S. efforts since the inception of the reconstruction program.

### Budget Execution

Iraq's 2006 budget totaled \$34 billion; its 2007 budget is \$41 billion.<sup>154</sup> But only 22% of the 2006 capital budget was spent last year.<sup>155</sup> By contrast, ministry execution rates of administrative budgets (salaries) were at 99%.<sup>156</sup>

The GOI failed to spend any of its January 2007 \$0.8 billion capital expenditures<sup>157</sup> because the 2007 budget was not approved until February 2007. Passage of the budget cleared the way for an increase in budget expenditure, and in February 2007, \$2.454 billion of the budget was spent.<sup>158</sup> No budget execution data has been reported for March 2007.<sup>159</sup>

The GOI continues to face many challenges in meeting its goal to fully execute the 2007 budget within the year. "Sustaining progress through September to meet this benchmark at year-end requires accelerated spending and procurement activity, which are challenging tasks in the face of capacity constraints and security problems."<sup>160</sup>

The unpredictable nature of Iraq's revenue adds to these concerns. Iraq's 2007 budget depends largely on revenue that fluctuates with the price of oil. It is difficult to predict the



GOI's 2007 income without a clear idea of the cost per barrel.<sup>161</sup>

## PROCUREMENT PROCESS

The complicated procurement process is one cause of capital budget execution delays. GAO reported that "the lack of agreed-upon procurement and budgeting rules causes confusion among ministry officials and creates opportunities for corruption and mismanagement."<sup>162</sup>

The Iraqi procurement process is complex.<sup>163</sup>

1. Contracts for more than \$5 million are reviewed/approved by High Contracts Committee.
2. The spending ministry awards the contract to its chosen vendor.
3. The spending ministry applies for a letter of credit (L/C).
4. The application is submitted through the Ministry of Finance.
5. The Ministry of Finance passes the application to the Trade Bank of Iraq (TBI).
6. The Ministry of Finance authorizes the Central Bank of Iraq to release funds equal to 100% of the total value of the L/C to J.P. Morgan (JPM).
7. TBI sends the L/C application electronically to JPM.
8. JPM sends the L/C application to a Consortium Bank.
9. The Consortium Bank issues the L/C to Vendor Bank.

## ADDRESSING THE CHALLENGES TO BUDGET EXECUTION

The GOI has formed a Budget Execution Monitoring Unit (BEMU), run by the Deputy Prime Minister, in an effort to address budget execution challenges. The unit is tasked with improving Iraqi budget processes. Treasury reports that the BEMU will ultimately take over Treasury's role in reporting on Iraqi budgets.<sup>164</sup>

In February, the Ministry of Finance issued the early release of 10% of each budget in an effort to increase efficient budget execution.<sup>165</sup> In addition, as reported last quarter by SIGIR, the GOI has instituted a new budgetary policy: any ministry that fails to obligate 25% or more of its budget by the end of June 2007 will risk losing some of that budget. The Ministry of Finance is authorized to reallocate these unused ministry funds.<sup>166</sup>

The Ministry of Planning, in association with the Joint Contracting Command-Iraq/Afghanistan (JCC-I/A), has formed a Procurement Assistance Center (PAC) to train ministry procurement officers in writing spending requests.<sup>167</sup> The PAC defines its mission as follows: "Assist the Government of Iraq to execute its capital budget by developing professional people, end-to-end processes, and enabling technology."<sup>168</sup> Some of the PAC's short-term objectives include:<sup>169</sup>

- create standard forms for budget process
- conduct initial training for ministries and provinces
- create a PAC website and help desk



The U.S. government has been working closely with the GOI to address budget execution challenges. In April 2007, DoS authorized DoD to offer commodities and services to the GOI to ease budget execution problems, according to GAO. This aid would be provided on an “advance-of-funds basis,” which would require the GOI to issue an official request for the U.S. government’s services.<sup>170</sup>

These organizations are working in coordination with the GOI to improve the national budget process.<sup>171</sup>

- DoD Task Force To Improve Business and Stability Operations (TF-BSO)
- JCC-I/A
- Treasury
- DoS

TF-BSO has two teams working with the Ministry of Planning on budget execution. One of these teams operates from Baghdad, and the other works with the Kurdistan Regional Government (KRG) from a satellite office.<sup>172</sup>

The Ministry of Defense and the Ministry of Interior have also been seeking experts to help them execute their 2007 budgets through U.S. Foreign Military Sales (FMS).<sup>173</sup> The Defense Security Cooperation Agency defines FMS as “the government-to-government method for selling U.S. defense equipment, services, and training.”<sup>174</sup>

The GOI has provided \$1.7 billion for FMS services, including aid for budget execution.<sup>175</sup> The DoS FY 2008 budget anticipates that Iraq will spend an estimated \$1 billion in FMS services per year for 2007 and 2008.<sup>176</sup>

Despite difficulties in budget execution in 2006, the GOI’s security budget for 2007 will increase from \$5.4 billion to \$7.3 billion. DoD reports that this budget increase is evidence of the GOI’s independence and increased focus on security. However, GAO’s report on Iraq’s security budget and management raises questions about the ability of the GOI to effectively execute this larger budget. GAO warns: “As the U.S. government transfers more of its security responsibilities to the Iraqi government, it is important that the Iraqi government demonstrate that it can execute its approved budget more effectively.”<sup>177</sup>

## U.S. Support

In addition to supporting improved budget execution, U.S. activities in this sector focus on building other capacities across the GOI. Efforts in this area range from O&M training at the individual project level up to the ministries. Specialized U.S. agencies<sup>178</sup> provide targeted support directly to the Iraqis and in collaboration with other international donors. For more information on international donor efforts, see International Support for Iraq Reconstruction later in this section.

## FUNDING STATUS

Capacity development has been allocated \$165 million in total ESF FY 2006 funding, which is more than 11% of overall ESF funds.<sup>179</sup> These U.S. agencies received funding for capacity-development programs:



- \$60 million went to USAID for Ministerial Capacity Development.
- \$45 million went to IRMO (now ITAO) for Ministerial Capacity Development.
- \$60 million went to GRD for Plant-Level Capacity Development and Technical Training.<sup>180</sup>

Of the \$124.12 million that has been obligated to date, approximately 17.3% (\$21.43 million) has been expended.<sup>181</sup> For the status of funds in the capacity development sector, see Figure 2.31.

ESF is funding 59 projects across 2 areas—Ministerial Capacity Development (USAID and ITAO) and Capacity Development and Technical Training (GRD). In Ministerial Capacity Development, there is one ongoing project. In Capacity Development and Technical Training, almost 75% of projects have not started and 25% are ongoing.<sup>182</sup> Figure 2.32 shows the status of ESF projects in the capacity development sector.

### Short-term Initiatives

ITAO is tasked with short-term initiatives, which use teams to strengthen policy functions across the GOI. It supports training in procurement and contracting, budget assistance, English language, and the Financial Management Information System (FMIS). The office also provides support to bilingual and bicultural advisors, as well as the development of the Ministry of Electricity's master plan.<sup>183</sup>

### Medium-term and Long-term Initiatives

USAID's \$165 million National Capacity Development (NCD) Program is working to strengthen the GOI's policy functions and personnel.<sup>184</sup> Approximately \$65 million of NCD has been obligated since the program began in August 2006.<sup>185</sup>

The NCD, also known as Tatweer, operates in the Ministries of Oil, Electricity, Finance, Water, Health, Education, Justice, Planning and Development Cooperation, Agriculture, and Public Works. In addition, the program works with the Prime Minister's Office and the Council of Ministers' Secretariat.<sup>186</sup>

Tatweer offers ministerial support and provides guidance to foster sustainable policy mechanisms, regulations, and personnel development.<sup>187</sup> Public Management Advisors (PMAs) work in the ministries to assist with "development planning and implementation."<sup>188</sup> Currently, PMAs are staffed in seven of

Figure 2.31

#### OBLIGATIONS TO CAPACITY DEVELOPMENT

\$ Billions, \$124 Billion Total

Sources: ITAO,<sup>a</sup> *Weekly Status Report* (6/26/2007); IRMS, ESF *Cost to Complete* (7/5/2007); USAID, *Activities Report* (7/12/2007); ITAO, Response to SIGIR, (7/14/2007)



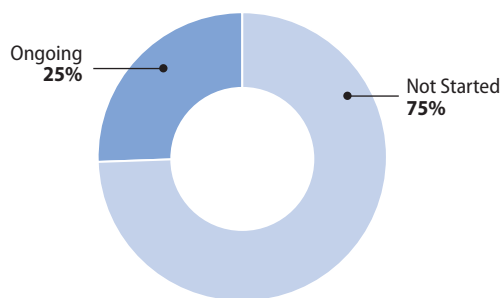
Note: Numbers are affected by rounding.

a. By Executive Order, on May 8, 2007, the President created ITAO as the successor organization to the IRMO.

b. FY 2006 Supplemental Funds (P.L. 109-234).



Figure 2.32

**STATUS OF ESF\* PROJECTS - CAPACITY DEVELOPMENT****TOTAL NUMBER OF PROJECTS: 59**Sources: IRMS, *ESF Cost to Complete* (7/5/2007); IRMS, *ESF Project Tracker* (6/29/2007); USAID, *Activities Report* (7/12/2007)

| Project Type                                | Not Started | Ongoing   | Completed | Total     |
|---|-------------|-----------|-----------|-----------|
| Capacity Development and Technical Training | 44          | 14        |           | 58        |
| Ministerial Capacity Development            |             | 1         |           | 1         |
| <b>Total</b>                                | <b>44</b>   | <b>15</b> |           | <b>59</b> |

\* Funded by the ESF FY 2006 Supplemental.

the ten targeted ministries, except for the Ministries of Finance, Justice, and Education.<sup>189</sup>

Tatweer has also established a scholarship program that enables Iraqi civil servants to earn advanced degrees in public administration; renovated Iraq's National Center for Consultation and Management Development building; set up regional offices in Erbil and Mosul; and developed training programs in procurement, information technology, financial management, policy development, and administration.<sup>190</sup>

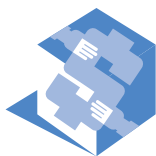
In May 2007, Tatweer awarded 75 scholarships for Iraqi public servants. The students (36% female) come from 11 provinces and "represent 14 central government institutions, plus the Kurdish Regional Government...."<sup>191</sup> In July 2007, USAID reported that 80 scholarships had been awarded.<sup>192</sup>

**Metrics**

Metrics for the NCD program were reviewed in July. Measuring outcomes, however, is difficult because of the nature of the program and the time required for tangible results.<sup>193</sup>

The initial target of training 1,500 civil servants has been revised<sup>194</sup> to reflect time constraints and the difficulty "finding Iraqi training institutions able and willing to roll out the newly designed courses."<sup>195</sup> Proposals from Iraqi institutions are expected by the end of July.

The overall goals of NCD remain the same: improving administrative systems, strengthening institutions, and providing training.<sup>196</sup> From November 2006 to July 3, 2007, Tatweer conducted 53 classes, ranging from the Fundamentals of Project Management, Cash Management, Government Procurement, Human Resources, Leadership, Test of English as a Foreign Language (TOEFL) Competency



to Anticorruption.<sup>197</sup> More than 800 people have participated in the training sessions.<sup>198</sup> Most participants come from the Ministries of Planning and Agriculture; the most-attended classes are on procurement, budgeting, project management, leadership, and anticorruption.<sup>199</sup>

### Sector-focused Initiatives

In the electrical, transportation and communications, health care, and water and sanitation sectors, GRD administers \$60 million in FY 2006 ESF Economic track funds for capacity development. Of that amount, GRD reported \$22 million in contractual obligations—nearly 37% of the total programmed amount. Approximately \$5.8 million has been expended.<sup>200</sup> See Table 2.7 for sector funding data.<sup>201</sup>

These are examples of GRD capacity-building activities that were not funded by ESF this quarter:<sup>202</sup>

- conducting two basic training classes on contracting, with the support of JCC-I/A, “to assist potential Iraqi contractors with understanding the procedures associated with responding to tenders”
- signing a Grant Agreement for Nassriya Drainage Pump Station with the Minister of Water Resources, which allows GRD “to provide procurement, administration, construction, management, and quality assurance for agreed-upon construction projects”
- organizing the Business Networking Day, with co-sponsors, “to provide vetted Iraqi firms quality networking time with U.S. firms...so that they can establish a working relationship”

ESF SECTOR FUNDING DATA (MILLIONS)

| SECTOR                            | PROGRAMMED AMOUNT | TOTAL OBLIGATED | UNOBLIGATED |
|-----------------------------------|-------------------|-----------------|-------------|
| Electricity                       | \$25              | \$16            | \$9         |
| Health                            | 12                | 0               | 12          |
| Transportation and Communications | 8                 | 2.5             | 5.5         |
| Water                             | 15                | 3.5             | 11.5        |
| <b>Total</b>                      | <b>\$60</b>       | <b>\$22</b>     | <b>\$38</b> |

Source: Program Review Board, Capacity Development and Sustainment Program Status—ESF06, June 29, 2007, p. 52.

TABLE 2.7